COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1730-01
Bill No.: HB 569
Subject: Bonds - General Obligation and Revenue; Business and Commerce; Economic Development; Taxation and Revenue.
Type: Original
Date: March 18, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	Exceeding $4,563,830	Exceeding $14,760,000	Exceeding $17,360,000
Total Estimated Net Effect on General Revenue Fund *	**Exceeding $4,563,830**	**Exceeding $14,760,000**	**Exceeding $17,360,000**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Insurance Dedicated	($5,120)	$0	$0
Total Estimated Net Effect on Other State Funds*	**($5,120)**	**$0**	**$0**

*** The fiscal impact of the various tax credits could be divided among the General Revenue Fund, the County Foreign Insurance Fund (which ultimately goes to local school districts) and the County Stock Insurance Fund (which ultimately goes to counties, school districts and the Blind Pension Fund) if some of the tax credits are utilized against insurance premium taxes.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 22 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government *	**$0**	**$0**	**$0**

*** The fiscal impact of the various tax credits could be divided among the General Revenue Fund, the County Foreign Insurance Fund (which ultimately goes to local school districts) and the County Stock Insurance Fund (which ultimately goes to counties, school districts and the Blind Pension Fund) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Higher Education** assume this proposal would not fiscally impact their agency.

Officials from the **Department of Natural Resources** assume the proposal would have minimal direct fiscal impact on their agency.

Officials from the **Department of Insurance (INS)** state the addition of two tax credits and changes to existing tax credits will reduce premium tax revenue by an unknown amount. Premium tax revenue is split 50/50 between General Revenue and the County Foreign Insurance Fund for all insurance companies other than domiciled stock property and casualty companies. Stock property and casualty companies pay premium tax to the County Stock Fund. The County Stock Fund is later distributed to the counties and schools where the principal office of the company is located and the blind pension fund

ASSUMPTION (continued)

according to the same ratio as property tax. The County Foreign Insurance Fund is later distributed to school districts throughout the state. Loss of tax revenue to the County Foreign Insurance Fund and County Stock Fund will impact school districts.

The addition of two new tax credits will require INS to modify the premium tax database. One-time contract computer programming to modify this database is estimated at $5,120 from the Ins. Dedicated Fund.

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the Department of Economic Development's, Department of Revenue's, and the Missouri Housing Development Commission's authority to promulgate rules, regulations, and forms. SOS estimates the division could require approximately 100 new pages of regulations in the Code of State Regulations at a cost of $27.00 per page, and 150 new pages in the Missouri Register at a cost of $23.00 per page. Costs due to this proposal are estimated to be $6,150, however, the actual fiscal impact would be dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent fiscal years would depend entirely on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn. SOS does not anticipate the need for additional staff as a result of this proposal, however, the enactment of more than one similar proposal may, in the aggregate, necessitate additional staff.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Office of Administration - Budget and Planning (BAP)** state that Section 32.115. 2 repeals the Neighborhood Assistance Act. Currently this program has a six million dollar limit per fiscal year for such tax credit allocation. This change will have a positive impact on Total State Revenue.

BAP states that Section 100.710 lowers the required investment that a business must make and the number of new jobs that must be created in order to be considered an eligible industry under the BUILD program. It is unknown the additional number of businesses which would participate in this program. This change could have a negative impact on Total State Revenue.

BAP states that Section 135.155 places a sunset on the New/Expanding Business Facility tax credit program. This change will increase Total State Revenue.

ASSUMPTION (continued)

BAP states that Sections 135.220 through 135.245 changes the language in state statute to reflect that the Enterprise Zone program will be a discretionary program with a $50 million annual limit. This change could increase Total State Revenue.

BAP states that Sections 135.350 through 135.363 clarifies that the Low Income Housing tax credit is a discretionary program. These sections also eliminate the state recapture clause on this program, which should increase the value of these tax credits when they are transferred or sold resulting in the issuance of fewer credits. This may increase Total State Revenue.

BAP states that Section 135.800 through 135.818 establishes the "Sustainable Neighborhoods and Communities Tax Credit Act" with an aggregate annual cap of fifteen million dollars for credits issued pursuant to these sections. These sections will decrease Total State Revenue.

BAP states that Section 135.820 creates new language that no tax credits may be approved for the neighborhood assistance program, the youth opportunities and violence prevention program, or the development tax credit on or after January 1, 2006. This change will increase Total State Revenue.

BAP states that Section 135.875 through 135.895 establishes the "Competitive Communities Tax Credit Act" with an aggregate annual cap of five million dollars for credits issued pursuant to these sections. These sections will decrease Total State Revenue.

BAP states that Section 253.550. 2-4 places additional restrictions on any business or person applying for a Historic Preservation tax credit. Subsection 2 states that the person or business must file a pre-application and be in receipt of preliminary approval from the Department of Economic Development to be eligible for the tax credit. Subsection 3 states that a project must be placed into service no later than three years after the date of preliminary approval to be eligible for the tax credit. Subsection 4 states that an application for issuance of the tax credit must be received by the Department of Economic Development no later than the end of the tax year following the tax year in which project was placed into service. This could increase Total State Revenue.

Section 620.1039. 2. Section E. Effective January 1, 2006, repeals the following sections: 32.110, 32.117, 32.120, 135.460, 620.1100, and 620.1103; and section 32.125 as enacted by HS SB 374 by the 88th General Assembly, which are the Neighborhood Assistance program, Development tax credit, and Youth Opportunities program. This will increase Total State Revenue.

ASSUMPTION (continued)

Effective upon the passage and approval of this bill, sections 135.535, 135.545, 135.750, 135.766, 620.1560, and 620.1400 through 620.1460 are repealed, which are the Rebuilding Communities program, Transportation Development tax credit, Film Production tax credit, SBA/USDA Loan Guarantee Fee tax credit, Skills Development program and Mature Worker tax credit. This will increase Total State Revenue.

Officials from the **Department of Revenue (DOR)** their Taxation Division will need to modify the MINITS, COINS, Speedup, E-file programs for the new credits in this legislation and for the repealed credits. It is estimated that 1,384 hours of programming will be needed at a cost of $46,170. Personal Tax will need one Tax Processing Tech I (at $21,192) for every 10,000 new credits claimed.

Oversight assumes DOR will not need the additional FTE as a result of this proposal. However, if Oversight is incorrect in this assumption, DOR can request the additional FTE through the normal budgetary process.

Officials from the **Department of Economic Development (DED)** state the administrative costs to implement this proposal would be similar to current resources, however, the proposal would result in a net savings of $4,570,000 in FY 2004, $14,730,000 in FY 2005 and $17,340,000 in FY 2006. This is detailed below;

Neighborhood Assistance Program (NAP) & Youth Opportunities and Violence Prevention Program (YOP) - Sections 32.100 - 32.125 and 620.1100 - 620.1103;

DED states the proposal repeals portions having to do with NAP, YOP and Development Tax Credit (DTC) leaving Affordable Housing Assistance Program (AHAP) as a stand-alone program with no substantive changes. The effective date of this part of the proposal is January 1, 2006.

135.820 (new section)
Sets forth transitional rule for NAP, YOP and DTC with no projects approved after August 28, 2003; no credits can be issued beginning January 1, 2006. The effective date of this part of the proposal is August 28, 2003.

DED assumes that 2003 is last year they can approve any NAP or YOP projects. DED assumes new program (Sections 135.800 - 135.818) is ready to implement in 2004 and takes on the same cycle as NAP currently has - approval, fund-raising, issuing of credits, redemption - all meaning a 2 to 3 year lag between project approval and credits first being redeemed. Some savings will be achieved because of time period after which old program credits cannot be issued. Some savings

ASSUMPTION (continued)

will be achieved because cutting off authorizations of new YOP at August 28, 2003. However, DED does not expect savings to be achieved at least until FY05, and due to carryforward aspects of credits, full phase out of program credit redemption may not be achieved for a few years. Savings are based on current projected redemptions.

DED assumes a savings from the repeal of the NAP program of $0 in FY 2004, $3 million in FY 2005 and $10 million in FY 2006.

DED assumes a savings from the repeal of the YOP program of $0 in FY 2004, $2 million in FY 2005 and $4.5 million in FY 2006

Sustainable Neighborhoods and Communities Tax Credit Act - Sections 135.800 - 135.818 (new sections)

DED states there are six categories of projects: including direct service, youth service, capital campaign, physical revitalization, youth employment, and small business revolving loan.

DED states this program has a $15 million annual cap and is effective August 28, 2003.

DED assumes all $15 million of the new program cap will be authorized and issued. DED also assumes a 95% redemption rate (similar to NAP and YOP currently). The new program, while set in place in 2004, will not expect redeemed credits until at least FY06.

Therefore, for the new Sustainable Neighborhoods and Communities Tax Credit Act, DED assumes a reduction in tax collections of $0 in FY 2004, $0 in FY 2005 and $14,250,000 (95% x $15,000,000) in FY 2006.

Rebuilding Communities Tax Credit - Sections 135.535 (x2) and 135.545. **REPEALED** Effective August 28, 2003

DED assumes the repeal of the rebuilding program has some immediate FY04 effect and effect increases incrementally due to carryforward aspect of those credits. DED assumes the saving from the repeal of the program to be $2 million in FY 2004, $2.5 million in FY 2005, and $3.5 million in FY 2006. Savings are based on current projected redeemed.

Competitive Communities Tax Credit - Sections 135.875 - 135.895 (new sections)

ASSUMPTION (continued)

DED states the program has a $5 million annual cap and is effective August 28, 2003. DED assumes the new program is implemented in 2004 and that all $5 million of the new program cap will be authorized and issued. DED assumes a 95% redemption rate. DED anticipates this program to result in a reduction in tax collections of $0 in FY 2004, $2 million in FY 2005 and $4.75 million ($5 million x 95%) in FY 2006.

Revenue Bonds - Section 100.105

DED states there is already a requirement to file annual reports and this simply adds one additional component to it. If a city provides a sales tax exemption certificate for a project, they would simply need to note how much taxable sales there would have been if they had not provided the certificate. This should have no fiscal impact.

Business Use Incentives for Large Scale Development (BUILD) - Sections 100.710 - 100.850.

DED states this part of the proposal;

- Removes exclusion of health and professional firms;
- Reduces number of new jobs and size of investment to qualify for program;
- Remove cumulative bond cap language; and
- Adds annual tax credit cap of $11 million

This part of the proposal is effective August 28, 2003. DED assumes that under current unused cap authority, they could reach or exceed $11 million annually FY04 - FY06, so this change has no fiscal impact.

New / Expanding Business Facility Tax Credit Program - Section 135.155.

DED states the proposal sunsets the New/Expanding Business Facility ("BFC") Tax Credit Program. Projects commencing operations on or before August 28, 2003 will continue to receive incentives; no new projects effective August 28, 2003. DED assumes the proposal would phase out the program over a ten year period. DED estimates an approximate reduction of $600,000 in tax credits redeemed, refunds and income modifications cumulatively per year. Savings are based on current projected redeemed. Therefore, DED assumes an increase in revenue of $600,000 in FY 2004, $1.2 million in FY 2005 and $1.8 million in FY 2006.

ASSUMPTION (continued)

Enterprise Zones - Sections 135.225 - 135.258.

DED states the changes to the Enterprise Zone Program include;

- Adds authority for businesses to participate that are "targeted industries.";
- Grandfathers facilities commencing operations on or before August 28, 2003;
- Adds $50 million annual tax credit cap for businesses commencing operations on or after August 29, 2003;
- DED to adopt procedures to stay within cap to be presented to and adopted by Joint Committee on Economic Development Policy and Planning;

This part of the proposal is effective August 28, 2003. DED assumes the proposal would phase out the entitlement program over a ten year period, but substitute discretionary projects not to exceed $50 million in any year. DED assumes that new projects will be a lower cost than projects dropping out because of discretionary nature. DED estimates approximate reduction of $1,000,000+ in tax credits redeemed, refunds and income modifications cumulatively. Savings are based on current projected redeemed. DED assumes a savings of $1 million in FY 2004, $2.25 million in FY 2005, and $3.75 million in FY 2006.

Charcoal Producers Tax Credit - Section 135.313

DED states the proposal removes their role in the Charcoal Producers tax credit, making it completely a DNR program. The effective dates of this part of the proposal is August 28, 2003. DED assumes there would be very little cost to their agency and that the savings would be minimal.

Low Income Housing Tax Credit - Sections 135.350 - 135.363.

DED states changes to the low income housing tax credit in the proposal are;

- Would issue a tax credit certificate like other tax credit programs;
- More clearly tie state credit to federal credit;
- Retain authority to allocate differently than pro-rata;
- Add true transferability;
- Eliminates state recapture.

DED assumes that because projects approved in a particular year take 2 to 3 years until credits are "issued" and redeemed, DED does not expect to see a fiscal change from these amendments

ASSUMPTION (continued)

until FY06 at least. Estimated savings in redeemed credits are $0 in FY 2004 and FY 2005, but are $5,000,000 for FY06. It is assumed fewer tax credits would need to be authorized and issued to provide gap financing when the credits are transferable and nonrecapturable. Savings are based on current projected redeemed.

Transportation Development Tax Credit - Section 135.545 **REPEALED**

This part of the proposal is effective January 1, 2004. DED states that some projects already approved would complete contribution/investment and request credits prior to January 1st deadline. This would simply represent our current projected redeemed amounts for FY04. DED expects far greater savings beginning FY05. DED assumes savings in the amounts of $0 in FY 2004, $4 million in FY 2005 and $5 million in FY 2006. These savings are based on current projected redemptions.

Film Production Tax Credit - Section 135.545 **REPEALED**

This part of the proposal is effective August 28, 2003. DED states that some projects already approved would complete production and request credits prior to August 28th deadline and would not achieve full savings as compared to projections of $720,000 redeemed per year for a while due to carryforward nature of credits. DED assumes savings in the amounts of $350,000 in FY 2004, $700,000 in FY 2005 and $700,000 in FY 2006. Savings are based on current projected redeemed.

SBA / USDA Loan Guarantee Fee Tax Credit - Section 135.766 **REPEALED**

This part of the proposal is effective August 28, 2003. DED state the current projections are $80,000 redeemed per year. DED assumes they would see that amount saved by FY06 - program does not have carryforward but there is leeway for amending returns, etc.

Oversight assumes the enabling legislation (HB 139) for this tax credit program was passed in 1999. In the 2000 legislative session, SB 894 was passed that repealed the program, however, this entire bill was declared unconstitutional in 2002. Therefore, the tax credit program is effectively, still on the Missouri Statutes. This part of the proposal attempts to repeal the program once again.

According to the Small Business Administration, roughly $3.1 million in loan fees were paid by

ASSUMPTION (continued)

Missourians in the fiscal year ended September 30, 2002. According to the United States Department of Agriculture (USDA), roughly between $150,000 and $300,000 in Rural Development loan guarantee fees are collected in a given year. Also according to the USDA, roughly between $400,000 and $500,000 in Farm Service Agencies loan guarantee fees are collected in a given year.

With this program, tax credits for these fees could be applied against Missouri taxes due, however, not all payees of these fees will have sufficient tax liability to be able to offset with the tax credit. Since this credit cannot be sold, carried forward or carried back, the amount of tax credits that will be able to be used against Missouri taxes will be somewhat limited. Therefore, **Oversight** assumes that without this part of the legislation (repeal of the Small Business Guarantee Fee Tax Credit) an unknown amount of tax credits, exceeding $100,000, would be utilized against Missouri income taxes. Therefore, Oversight assumes this repeal will result in a savings to the General Revenue fund of an unknown amount, over $100,000 in each of the three years of the fiscal note.

Historic Structures Tax Credit - Section 253.550

DED states this part of the proposal requires;

- a pre-application to be eligible to receive the Historic Preservation Tax Credit;
- DED must provide a pre-approval for eligible projects;
- Project must be placed into service within 3 years from pre-approval; and
- Taxpayer must apply for credits by end of tax year after tax year project placed into service.

The proposal gives rulemaking authority to DED to carry out limitations of this section. This part of the proposal is effective August 28, 2003. DED assumes these changes would help DED better predict potential costs of this entitlement program. No actual effect on TSR but expect better reporting abilities.

Missouri Technology Commission (MTC) - Sections 348.254 - 348.261.

DED states the proposal makes the following changes to the MTC;

- Protects business records submitted to the MTC (similar to 620.014 for DED);

ASSUMPTION (continued)

- Adds Commissioner of Higher Education as a member of the MTC;
- Clarifies that Governor can remove members for inefficiency, misconduct;
- Authorizes MTC to employ staff, charge fees;
- Clarifies powers regarding property and activities. Powers are similar to those granted Missouri Development Finance Board.

The effective date of this part of the proposal is August 28, 2003. DED assumes the need for $200,000 for 2 FTE and E&E to contract to provide MTC with staff for FY04. This amount is reflected as a cost below, but would only take place if included in the appropriations bill. Therefore, DED assumes a cost of $200,000 for FY 2004 and zero fiscal impact for FY 2005 and FY 2006.

DED "clawback" - Section 620.017.

DED assumes this part of the proposal would enhance accountability language as well as add annual reporting requirements by DED. DED assumes they can absorb any costs associated with this provision.

Research Tax Credit - Section 620.1039.

DED states the proposal makes the following changes to the Research Tax Credit;

- Revamp to limit to "targeted industries";
- Could count 100% of contract research expenses if done at a state university (otherwise, 65% or 75% limit);
- Re-enact transferability in general; and
- Re-enact cap at $9.7 million.

This part of the proposal is effective January 1, 2004. DED assumes these changes retarget the program and make changes but DED does not expect any change in redeemed amounts as compared with current projections. Therefore, DED assumes no fiscal impact from changes to this program.

ASSUMPTION (continued)

Individual Training Account "Skills Development" Tax Credit Program - Sections 620.1400 - 620.1460 **REPEALED**

This part of the proposal is effective August 28, 2003. Current redemption projections are $5,000 annually. DED expects to achieve elimination of these projected costs right away. Therefore, DED assumes this part of the proposal would result in savings of $5,000 per fiscal year starting in FY 2004. Savings are based on current projected redeemed.

Mature Worker Tax Credit Program - Section 620.1560 **REPEALED**

This part of the proposal is effective August 28, 2003. Current redemption projections are $5,000 annually. DED expects to achieve elimination of these projected costs right away. Therefore, DED assumes this part of the proposal would result in savings of $5,000 per fiscal year starting in FY 2004.

In summary, DED assumes the proposal would have the following impact on the General Revenue Fund in fiscal years 2004 through 2006.

Program	FY 2004	FY 2005	FY 2006
AHAP changes	$0	$0	$0
Repeal NAP	$0	$3,000,000	$10,000,000
Repeal YOP	$0	$2,000,000	$4,500,0000
Sustainable Neighborhoods	$0	$0	($14,250,000)
Repeal of Rebuilding Communities	$2,000,000	$2,500,000	$3,500,000
Repeal of Development Tax Cr.	$750,000	$1,000,000	$2,000,000
Competitive Communities	$0	($2,000,000)	($4,750,000)
Revenue Bond Reporting	$0	$0	$0
BUILD	$0	$0	$0
Business Facility Cr. sunset	$600,000	$1,200,000	$1,800,000
Enterprise Zone changes	$1,000,000	$2,250,000	$3,750,000
Charcoal Producers	$0	$0	$0
Low-Income Housing Tax Cr.	$0	$0	$5,000,000

ASSUMPTION (continued)

Repeal Transportation Tax Cr.	$0	$4,000,000	$5,000,000
Repeal Film Producers Tax Cr.	$350,000	$700,000	$700,000
Repeal USDA.SBA Guar. Fee	$60,000	$70,000	$80,000
Historic Tax Cr.	$0	$0	$0
Missouri Tech. Corp.	($200,000)	$0	$0
DED "clawback"	$0	$0	$0
R&D Tax Cr.	$0	$0	$0
Repeal Skills Development Acct.	$5,000	$5,000	$5,000
Repeal Mature Worker	$5,000	$5,000	$5,000
Total DED assumed savings	**$4,570,000**	**$14,730,000**	**$17,340,000**

FISCAL IMPACT - State Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
INSURANCE DEDICATED FUND			
Cost - Department of Insurance Contract programming expense	($5,120)	$0	$0
ESTIMATED NET EFFECT TO THE INSURANCE DEDICATED FUND	**($5,120)**	**$0**	**$0**
GENERAL REVENUE FUND			
Savings - repeal of Neighborhood Assistance Program	$0	$3,000,000	$10,000,000
Savings - repeal of Youth Opportunities Program	$0	$2,000,000	$4,500,000
Savings - repeal of Rebuilding Communities Tax Credit	$2,000,000	$2,500,000	$3,500,000
Savings - repeal of Development Tax Credit	$750,000	$1,000,000	$2,000,000

Savings - sunset provisions for the New / Expanding Business Facility Tax Credit	$600,000	$1,200,000	$1,800,000
Savings - changes to the Enterprise Zone	$1,000,000	$2,250,000	$3,750,000
Savings - changes to the Low-Income Housing Tax Credit	$0	$0	$5,000,000
Savings - repeal the Transportation Development Tax Credit	$0	$4,000,000	$5,000,000
Savings - repeal Film Production Tax Credit	$350,000	$700,000	$700,000
Savings - repeal of the Small Business Guarantee Fee Tax Credit	Unknown, exceeding $100,000	Unknown, exceeding $100,000	Unknown, exceeding $100,000
Savings - repeal of Skills Development Tax Credit	$5,000	$5,000	$5,000
Savings - repeal of Mature Worker Tax Credit	$5,000	$5,000	$5,000
Costs - Department of Revenue Programming costs	($46,170)	$0	$0
Costs - Department of Economic Dev. Changes in Missouri Tech. Commission	($200,000)	$0	$0
Loss - Sustainable Neighborhood & Communities Program	$0	$0	($14,250,000)
Loss - Competitive Communities Tax Credit Program	$0	($2,000,000)	($4,750,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**Exceeding $4,563,830**	**Exceeding $14,760,000**	**Exceeding $17,360,000**

FISCAL IMPACT - Local Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small business that qualify for the repealed, changed or new tax credit programs could be impacted by this proposal.

DESCRIPTION

This proposal eliminates several economic programs, makes changes to several others and adds two more. Specifically, the proposal:

(1) Creates a new tax credit program called the Sustainable Neighborhoods and Communities Tax Credit Act. The program will expire on January 1, 2006;

(2) Creates a new tax credit program called the Competitive Communities Tax Credit Act;

(3) Eliminates tax credits for homeless assistance projects for low-income Missourians, effective January 1, 2006;

(4) Adds an expiration date to the Neighborhood Assistance, the Youth Opportunities and Violence Prevention, and the Development Tax Credit programs. No projects can be approved for these tax credits after August 28, 2003, and no tax credits can be issued for these programs after January 1, 2006;

(5) Eliminates tax credits for investing in a distressed community or relocating a business to a distressed community, effective January 1, 2004;

(6) Eliminates tax credits for investing in the transportation development of a distressed community, effective January 1, 2004;

(7) Eliminates tax credits for film production companies;

(8) Eliminates the Missouri Individual Training Account Program; and

(9) Eliminates the Mature Worker Child Care Program.

DESCRIPTION (continued)

TAX CREDITS FOR NEIGHBORHOOD ASSISTANCE, AFFORDABLE HOUSING ASSISTANCE, AND CONTRIBUTIONS TO CERTAIN NEIGHBORHOOD ORGANIZATIONS

Effective January 1, 2006, the proposal:

(1) Eliminates the neighborhood assistance tax credits;

(2) Authorizes the Missouri Housing Development Commission instead of the Department of Revenue to grant affordable housing tax credits;

(3) Allows affordable housing tax credits and tax credits for businesses that make a contribution to certain neighborhood organizations to be transferred or sold; and

(4) Changes the name of the Neighborhood Assistance Act to the Affordable Housing Act.

BUSINESS-USE INCENTIVES FOR LARGE-SCALE DEVELOPMENT

The proposal:

(1) Removes the $75 million limit on the total amount of outstanding revenue bonds the Missouri Development Finance Board can sell;

(2) Limits the amount of authorized tax credits for large-scale development to $11 million annually;

(3) Reduces the minimum amount of money an eligible industry must invest in most economic development projects from $15 million to $7 million. For office industry projects, the minimum investment remains at $10 million;

(4) Reduces the minimum number of new jobs an eligible industry must create with most economic development projects from 100 to 50. For office industry projects, the minimum number of jobs remains at 500. For office industry projects in distressed communities, the minimum number of new jobs remains at 200; and

(5) Removes health and professional services from the exclusion clause in the definition of "eligible industry."

DESCRIPTION (continued)

ENTERPRISE ZONES

The proposal:

(1) Allows only approved taxpayers to receive the tax credits, tax exemptions, and other economic incentives related to enterprise zones, rather than allowing any taxpayer to receive them as allowed by current law;

(2) Limits the amount of tax credits authorized for taxpayers who begin operations in an enterprise zone on or after August 28, 2003, to $50 million annually;

(3) Requires a taxpayer who begins operations in an enterprise zone between January 1, 1999, and August 28, 2003, to have an approved letter of intent to be eligible for the economic incentives related to enterprise zones;

(4) Requires taxpayers to file the initial application for tax credits in the tax period immediately following the tax period in which commercial operations begin at the new business; and

(5) Expands the list of revenue producing enterprises to include local exchange telecommunications services, certain photo finishing activities, targeted industries, unspecified industries deemed beneficial to the economy that are considering a new or expanded business facility in an enterprise zone, and enterprises identified by a Standard Industry Classification (SIC) number that is the same as a corresponding number in subsequent federal industry classification systems.

SUSTAINABLE NEIGHBORHOODS AND COMMUNITIES TAX CREDIT ACT

The proposal:

(1) Creates a new tax credit program called the Sustainable Neighborhoods and Communities Tax Credit Act, which will expire on January 1, 2006;

(2) Limits the amount of these tax credits authorized annually to $15 million; and

(3) Allows a tax credit for several different types of projects that can be undertaken by a community-based organization or business. Projects must be approved by the Director of the Department of Economic Development. The amount of the tax credit will be 50% of expenses associated with eligible projects. A tax credit equal to 70% of expenses associated with eligible

DESCRIPTION (continued)

projects can be awarded if the town in which the project occurs has fewer than 15,000 residents and is located in a rural county. If a town with fewer than 15,000 residents is located in a county that is part of a metropolitan statistical area, but the county has only one town with more than 15,000 residents and a substantial number of residents in the county derive their income from agriculture, then a 70% tax credit may also be awarded. The exact amount of the tax credit will be determined by the director.

COMPETITIVE COMMUNITIES TAX CREDIT ACT

The proposal:

(1) Creates a new tax credit program called the Competitive Communities Tax Credit Act;

(2) Limits the amount of these tax credits authorized to $5 million annually;

(3) Requires the Department of Economic Development to adopt a multi-year plan determining program priorities in which projects will be eligible to receive these tax credits. The proposal explains the criteria which should be used when making determinations of eligibility;

(4) Allows businesses seeking the department's approval for a project to submit an application;

(5) Requires the director to approve or disapprove a project and establish the amount of the tax credit to be granted; and

(6) Allows these tax credits to be transferred or sold.

HISTORIC STRUCTURES REHABILITATION TAX CREDIT

The proposal:

(1) Requires the individual or entity wishing to receive the tax credit to file a pre-application with the department for preliminary approval;

(2) Requires a project to be in service no later than three years after the date of preliminary approval; and

(3) Requires that an application for the issuance of tax credits be received by the department no later than the end of the tax year following the tax year in which the project went into service.

DESCRIPTION (continued)

Applications received after this date will not be allowed a tax credit.

MISSOURI TECHNOLOGY CORPORATION

The proposal:

(1) Requires that certain documents submitted to the Missouri Technology Corporation be deemed closed records;

(2) Expands the corporation's board from 15 members to 16 and requires that the Commissioner of Higher Education be a member; and

(3) More fully explains the powers of the corporation.

TAX CREDITS FOR QUALIFIED RESEARCH EXPENSES

Effective January 1, 2004, the proposal:

(1) Allows the director to authorize a tax credit up to 6.5% of the qualified research expenses that are greater than the average amount of qualified research expenses for the previous three tax years; and

(2) Prohibits the transfer or sale of these tax credits.

INDUSTRIAL DEVELOPMENT PROJECTS

Current law requires municipalities to file an annual report with the Department of Revenue regarding revenue bonds and general obligation bonds issued in the previous year. In addition to the information the annual report must currently contain, the proposal requires municipalities to include the amount of any state sales taxes that were not paid on the project because the buyer was tax-exempt. This will become effective on January 1, 2004.

TAX CREDITS FOR NEW OR EXPANDED BUSINESS FACILITIES

The proposal states that facilities which begin operating on or after August 28, 2003, will not

DESCRIPTION (continued)

receive tax credits for new or expanding business facilities.

TAX CREDITS FOR CHARCOAL PRODUCERS

The proposal requires charcoal producers who elect to assign their tax credits to a third party to file all appropriate forms with the Department of Natural Resources rather than the Department of Economic Development, as currently required.

TAX CREDITS FOR MISSOURI LOW-INCOME HOUSING

The proposal allows taxpayers to receive a Missouri low-income housing tax credit only if they have received a federal tax credit, rather than requiring that taxpayers receive the tax credit regardless of whether or not they have received the federal tax credit as is currently allowed. These tax credits can be transferred or sold. This will become effective on January 1, 2004.

OTHER PROVISIONS

Current law requires that for any contract or agreement between the department and another party that provides grants, loans, or other assistance to which a monetary value can be assigned, the department must specify that the recipient will use the grant, loan, or other assistance solely as required by the program through which the assistance was provided and that misappropriated funds be repaid in full to the department. The proposal applies the same conditions to tax credits.

In addition, the proposal requires the department for each grant, loan, tax credit, or other financial incentive to:

(1) Describe the economic incentive, including its amount and type;

(2) State why the economic incentive is needed;

(3) State the public purpose for the incentive;

(4) State the goals for the incentive and the time periods by which these goals must be met;

(5) Describe the financial obligations of the party if the requirements of the contract or

DESCRIPTION (continued)

agreement are not met;

(6) State the name and address of the parent corporation of the recipient, if any; and

(7) State all other financial assistance known by the department that was received by the recipient for the same project. All contracts and agreements are governed by the applicable provisions of contract law.

The proposal also requires the department to submit an annual report to the Governor, Speaker of the House of Representatives, and the President Pro Tem of the Senate regarding all economic incentives administered in the previous calendar year. The proposal specifies the requirements of the report.

These other provisions will become effective on January 1, 2004.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Office of Administration - Budget and Planning
Department of Insurance
Office of the Secretary of State
Department of Natural Resources
Department of Higher Education

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RAS:LR:OD (12/02)

DIRECTOR
MARCH 18, 2003